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ABSTRACT

A study explored the issue of fiscal agency and its relationship to planning and implementing school-to-work (STW) systems to inform stakeholders in Arizona's emerging STW system about other states' experiences. A review of the STW Internet Gateway yielded a subset of states based on factors such as their history in implementing STW and similarities to Arizona. Interviews were conducted via telephone, fax, or e-mail with 61 individuals in 20 states. Participants were asked to relate their experiences with and as fiscal agents, how fiscal agents were chosen, and strengths and weaknesses of a particular type of fiscal agency. STW partnerships used four types of fiscal agents: educational institutions; training institutions; business and labor organizations; and "other" organizations. Effective fiscal agents had the following characteristics: existing mechanisms/structures, neutrality, experience in federal grant management, skill in fostering involvement, philosophy, and accessibility/central location. Educational institutions offered the advantages of being accustomed to handing federal monies and familiar with state-level policies and procedures. A major drawback was that their use contributed to "turf" issues. The other three types had geographic and size advantages, were able to coordinate function in multiple school districts, and were able to handle workload and manage cash flow. A disadvantage was a lack of knowledge regarding how schools operate. (YLB)

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Arizona School to Work Briefing Paper #3

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School To Work Fiscal Agents: Profiles of 20 States

Arizona School To Work Briefing Paper #3 *January 1997*

by
Jill Engmark, Consultant and Judith A. Vandegrift, Research Analyst

The School-to-Work (STW) Opportunities Act of 1994 provides a national impetus for creating statewide systems that combine workforce and economic development with changes in the ways that students are educated. In FY 1996 alone, $350 million was channeled through states or directly from the U.S. Departments of Labor and Education to 818 STW local partnerships to begin or continue the process of building statewide STW systems. Given a perception that "whomever controls the purse strings has power," designated fiscal agents have the potential to greatly impact STW system implementation.

This paper explores the issue of fiscal agency and its relationship to planning and implementing STW systems. It is intended primarily for use by Arizona's state and local STW partners, and especially those who are rethinking their designation of a fiscal agent. The goal is to inform stakeholders in Arizona's emerging STW system about other states' experiences with fiscal agents.

In part, the paper is prompted by Arizona's experience with fiscal agency during FY 1996. Arizona's STW implementation grant is administered by the Governor's Division of School To Work (GDSTW). During FY 1996—the state's first year of implementation—13 partnerships received either a capacity building or implementation grant from the GDSTW. Of the 13 partnerships, 11 designated community colleges as fiscal agents, while two were administered by school districts. Three of these partnerships changed fiscal agents for FY 1997, and others are considering a change.

Local partnerships' experiences with their fiscal agents provoked a number of questions such as whether or not there are unique advantages or disadvantages associated with different types of fiscal agents. Or, whether one type of fiscal agent stands a better chance of sustainability than another once federal STW funds are no longer available.

In an effort to answer these questions and others, the GDSTW commissioned Morrison Institute for Public Policy—the agency coordinating the state's STW research and evaluation activities—to investigate fiscal management practices in other states. This briefing paper summarizes the results of this inquiry.

Study methodology

During FY 1996, 27 states were engaged in STW activities. Ten additional states began implementation in FY 1997. An initial review of information obtained from the STW Internet Gateway yielded a subset of states that were targeted for investigation based on factors such as their history in implementing STW and similarities to Arizona (e.g., regional; funding structure).

A total of 61 individuals in 20 states responded to requests for information. Of the interviews:

- 22 represented state STW personnel;
- 24 were fiscal agents from educational institutions; and,
- 15 were fiscal agents representing 501(c)(3)s, workforce development boards, chambers of commerce, manufacturers' associations, Private Industry Councils (PICs), and "Area Development Districts."

interviews were conducted between October and December of 1996 via telephone, fax, or e-mail with follow-up as necessary to ensure the accuracy of the information reported. Participants were asked to relate their experiences with and as fiscal agents, how fiscal agents were chosen, and the strengths and weaknesses of a particular type of fiscal agency. Findings are summarized in the sections that follow.

An overview of fiscal agents

Fiscal agents for STW partnerships are discussed in terms of one of four categories: educational institutions, training institutions, business and labor organizations, and "other" organizations. These categories are adopted from the *Local Partnership Survey*—an instrument developed by Mathematica Policy Research, Inc. as part of the national evaluation of STW implementation.

Educational institutions: In the 20 states surveyed, 84 percent of STW partnerships use an educational institution as their fiscal agent.

K-12 entities—especially local education agencies or school districts—comprise 70 percent of the fiscal agents in the category of educational institutions. Other K-12 fiscal agents include regional vocational districts/ centers and intermediate/regional "education services districts" (including educational collaboratives).

The remaining 14 percent of educational institutions serving as fiscal agents are postsecondary institutions. Of the 51 known postsecondary fiscal agents, only a few (eight percent) are universities while most (92 percent) are two-year institutions (e.g., community, junior, or technical colleges).

Training institutions: Training institutions include entities such as proprietary schools, apprenticeship agencies, and PICs. Training institutions—PICs exclusively—account for only one percent of fiscal agents included in this study. California, Ohio and Oregon each have at least one fiscal agent that is a PIC.

Business and labor organizations (e.g., trade associations, chambers of commerce) are utilized as fiscal agents in several states and account for two percent of the fiscal agents identified in this study. Wisconsin has the most (5), followed by Iowa, Nebraska, and North Carolina with an estimated two each.

"Other" organizations: "Other" organizations account for 13 percent of known fiscal agents. These include workforce development or investment boards, local or regional government agencies, and nonprofit agencies. One state—Michigan—uses workforce development boards exclusively as fiscal agents. Florida, Massachusetts, Nebraska and Ohio also have one or two workforce development boards acting as fiscal agents.

Kentucky's "Area Development Districts" are an example of a local or regional government agency acting as fiscal agent. These districts encompass multiple counties and employ staff to coordinate local government functions (e.g., transportation, JTPA). Counties as a unit of government also serve as fiscal agents for some local STW partnerships. For example, most fiscal agents in California are counties. Similarly, Florida's school districts are county-based in the sense that each county in Florida is a school district.

501(c)(3)s are the primary nonprofit organization used as fiscal agents. California, Kentucky, Nebraska, Oregon, and Wisconsin all have at least one 501(c)(3) organization serving as a fiscal agent for a local partnership.

Table 1 (on pages 4 and 5) summarizes information about states' fiscal agents. A word of explanation is warranted on the figures included in the table. Since this study was conducted at the end of FY 1996 and beginning of FY 1997, some states reported numbers from 1996 and others from 1997. Whenever possible, the most recent partnership statistics were used. Maine and Washington, though included in the table, do not have data on fiscal agents because both states have unique STW fiscal structures which are highlighted in the text.

Some notable facts from the table are as follows.

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- Among state fiscal agents: 65 percent (13 of 20) are state education agencies; 25 percent (five states) are labor-related state agencies such as a department of commerce; and 10 percent (two states, excluding Arizona) channel funds through the Governor's Office.

- 75 percent (16 of 20) *of the states* and 84 percent (298 of 353) *of known partnerships* employ at least one educational institution as a fiscal agent.

- In six states—Colorado, Idaho, Nevada, New Hampshire, Oklahoma, and Utah—*all* fiscal agents are educational institutions.

- Florida is the only state (except Arizona) with more postsecondary than K-12 fiscal agents.

- Michigan, Nebraska and Wisconsin have the highest percentages of non-education fiscal agents, but also have labor departments as state fiscal agents.

- With the exception of Michigan, whose fiscal agents are all workforce development boards, Kentucky has the highest percentage of "other organizations" as fiscal agents.

Characteristics of "effective" fiscal agents

The main question of interest was whether or not a particular type of fiscal agent is perceived as better or more effective than another in planning or implementing a local STW system. In short, ***no one type of agency is uniformly perceived as better or more effective than another***. Rather, fiscal agents of all types are perceived as effective in systems-building efforts to the degree that they also are perceived as having particular institutional characteristics or strengths. As derived from the interviews, such characteristics or strengths include the following:

Existing mechanisms/structures—Existing resources to distribute grant monies means less time in "gearing up"and establishing new relationships. Institutional characteristics such as established human and policy resources and accounting systems can facilitate the planning and implementation processes.

Neutrality—A neutral agent can eliminate perceptions that fiscal management is tied to any single municipality, school district, community college, region, and so on. An independent party can better mediate and resolve "turf" challenges among participating partners.

Experience in federal grant management—An effective fiscal agent not only has a structure in place to handle funds, but also has experience in grant management.

Skill in fostering involvement—An effective fiscal agent is able to effectively involve, coordinate, and collaborate with all stakeholders.

Philosophy—An effective fiscal agent has a strong commitment to creating a "true new partnership between business and education."

Accessibility/central location—Easy accessibility and central location within a particular region are viewed as positive characteristics of fiscal agency.

The downside of fiscal agency

Cash flow—Lack of up-front cash; reimbursement nature of the grant

Workload—"Extra work without resources;" "It's not exactly a windfall to be a fiscal agent."

Turf problems/Cooperation from other stakeholders—Jealousy from partners over the status of the fiscal agent; perceptions—sometimes warranted—that fiscal agents have more or undue influence than other partners.

Personnel policies—Especially among educational institutions, union salary limitations for hiring staff and college personnel policies and restrictions pose barriers in getting the right person for the job

Liability-The entity that serves as fiscal agent assumes liability for the entire partnership—who needs it?

Table 1

Local partnership fiscal agents in 20 states (excluding Arizona)

State	State fiscal agent	# of STW	Yr of data	Type of Fiscal Agent: Educational Institutions: K-12	Educational Institutions: Post-secondary	Educational Institutions: Total (Educational Institutions)	Training Institutions	Business & Labor	Other
AZ	GO	13	'97	4 (30%)	8 (62%)	12 (92%)	—	—	1 (8%)
CA	DOL	55•	'97	—	—	—	One	Few	Most
CO	GO	65•	'97	Most	Few	All	—	—	—
FL	SEA	28	'96	13 (46%)	14 (50%)	27 (96%)	—	—	1 (4%)
IA	DOL	150•	'97	Most	Some	Most	—	Few	—
ID	SEA	21	'96	16 (76%)	5 (24%)	21 (100%)	—	—	—
KY	SEA	22	'97	8 (36%)	6 (28%)	14 (64%)	—	—	8 (36%)
MA	SEA	33	'96	26 (79%)	2 (6%)	28 (85%)	—	—	5 (15%)
ME	SEA	24•	'97	NA	NA	NA	NA	NA	NA
MI	DOL	26	'97	—	—	—	—	—	26 (100%)
NC	SEA	66•	'97	Most	Few	Most	—	Few	—
NE	DOL	12	'96	6 (30%)	2 (17%)	8 (67%)	—	2 (17%)	2 (17%)
NH	SEA	58	'96	58 (100%)	—	58 (100%)	—	—	—
NY	SEA	55•	'97	Most	Few	Most	—	—	—
NV	SEA	4	'97	3 (75%)	1 (25%)	4 (100%)	—	—	—
OH	SEA	53••	'97	38 (72%)	11 (20%)	49 (92%)	3 (6%)	—	1 (2%)
OK	SEA	41	'97	40 (98%)	1 (2%)	41 (100%)	—	—	—
OR	SEA	15	'96	13 (87%)	—	13 (87%)	—	1 (7%)	1 (7%)

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Table 1—continued

State	State fiscal agent	# of STW	Yr of data	Type of Fiscal Agent: Educational Institutions — K-12	Educational Institutions — Post-secondary	Educational Institutions — Total (Educational Institutions)	Training Institutions	Business & Labor	Other
UT	SEA	9	'96	8 (89%)	1 (11%)	9 (100%)	—	—	—
WA	GO	NA*	'97	NA	NA	NA	NA	NA	NA
WI	DOL	31	'96	18 (58%)	8 (26%)	26 (84%)	—	5 (16%)	—
Total***		768 353		247 (70%)	51 (14%)	298 (84%)	3 (1%)	8 (2%)	44 (13%)

Notes: Figures may not total 100% due to rounding

DOL = Department of Labor (e.g.,Commerce, Economic Development, Jobs Commission)
GO = Governor's Office
SEA = State Education Agency

# of STW = Number of local/regional partnerships reported

*Specific breakdowns of types of fiscal agents for these states are unavailable or do not apply.

**Ohio has funded a total of 93 partnerships since implementation began in 1996. Fiscal agents for 40 "prototype grants" were unable to be determined; numbers are based only on the 53 partnerships with known fiscal agency.

768 is the total number of partnerships in the states studied. 353 is the number of partnerships in which type of fiscal agency is known. ***Percentages are based upon known fiscal agent types.

State profiles

Some states exhibit particularly unique fiscal agency or funding distribution practices. Some of these are described in the profiles that follow.

Michigan: During FY 1996, Michigan funded 44 STW partnerships; roughly 80 percent had educational institutions as fiscal agents. Michigan changed its system of designating fiscal agents for FY 1997. Monies are now administered through 26 regional workforce development boards who distribute funds through a competitive bid process. While several interviewees said that the changeover has been somewhat difficult, they also indicated that the state is in a transitional period and that it is premature to gauge the advantages and disadvantages of this strategy.

Ohio: Regional alliances and local partnerships are structured around the state's 12 economic development regions. Ohio uses a "draw down" method for distribution of the funds for all funding recipients. Awards of federal funds are made through a "Request for Proposal" process at the state level with money provided on a reimbursement basis.

Oklahoma: There are 41 local partnerships. Fiscal agency is driven primarily by state statute, which requires a streamlined delivery of dollars and a standard state financial process. For this reason, the majority of Oklahoma fiscal agents are school districts or area vocational schools.

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Maine: Although Maine has 24 local partnerships, monies are distributed instead through seven funding streams. Local entities receive funding through these pathways, rather than specific fiscal agents. The Maine State Department of Education acts as state fiscal agent, channeling the funds to the appropriate state agencies administering the seven areas of emphasis which are: 1) a pre-apprenticeship program managed by the Maine Department of Labor, 2) Jobs for Maine's Graduates, 3) Tech Prep, 4) pro-prep, 5) occupational prep, 6) school-based enterprises, and 7) a state-level youth apprenticeship program named "Career Advantage."

The "Career Advantage" program is the primary pathway for STW funding in Maine. Funds go to the Center for Career Development, a subsidiary of the technical college system. The Center is set up as a 501(c)(3) corporation, and is the employer of record for all students enrolled in the program. Businesses accepting students at their work sites pay $5000 a year. Insurance and student stipends are paid out of this fee.

Massachusetts: In Massachusetts, where state fiscal agency resides in the Massachusetts Department of Education (MDE), the majority of local fiscal agents are schools, school districts and educational collaboratives, although there are a few employment boards and community colleges serving in this capacity.

What distinguishes Massachusetts is that one of the community colleges uses a regional employment board as a lead fiscal agent. The employment board passes STW monies directly through to the community college. This mechanism alleviates the necessity of an intergovernmental agreement between the MDE and the community college.

Washington: The Governor's Budget Office acts as state fiscal agent for STW funds, but immediately passes the monies through to five other state-level entities (three state agencies, the State Labor Council, and a business organization). Each subcontractor serves a different role in the system-building process (e.g., work-based learning, skills centers, support). The five agents then channel funds directly to local partnerships. Educational consortiums receive the majority of STW funds.

How fiscal agents are chosen

Asked how partnerships selected their fiscal agent, four primary reasons were cited (which are not necessarily mutually exclusive). In order of frequency of response, fiscal agents were selected—

Because they were involved from the outset (e.g., they either wrote the planning or implementation grant, served as chair of the planning committee, or took a lead role early in the process).

Because they were elected by all stakeholders (regardless of their initial role).

Because they had an existing structure for handling a federal/state grant which made them a logical choice.

By default (i.e., no other organization expressed interest in serving in this capacity, while the chosen fiscal agent was willing).

Unique advantages by type of fiscal agent

Specific advantages were cited relation to different types of fiscal agency. This section highlights pros and cons by type of fiscal agent.

Educational institutions: Educational institutions are perceived as advantageous in that they often are accustomed to handling federal monies and are familiar with state-level policies and procedures. However, a major drawback of using an educational entity as a fiscal agent is the perception that fiscal agency imbues power or financial advantages to the agency controlling the purse strings, contributing to "turf" issues.

Another issue relates to the perception of STW as "just another education reform effort."

Benefits and detriments to using specific types of educational institutions (e.g. K-12 and postsecondary institutions) are listed below.

K-12. The chief advantage of using a K-12 entity as fiscal agent is that they are perceived as closest to the students for whom STW is intended. As one individual said,

> "*We have the pulse on what is happening in schools.* The steering committee had thought about a bank or community college as fiscal agent, but felt that the K-12 public education system was where STW would be implemented."

On the down side, K-12 institutions—particularly small systems—may not always have the capacity to handle large cash flow demands. Additionally, some lack adequate knowledge of U.S. Department of Labor requirements which are imbedded in STW.

Postsecondary institutions: Perceived advantages of postsecondary institutions are that they sometimes have more resources for fiscal management than K-12 districts and that they may have established relationships (e.g. Tech Prep) with schools that serve to streamline the distribution of funds. For example, college fiscal agency is perceived as "allowing schools some freedom from the reimbursement process" and "allowing school districts to keep funds separate and avoid money getting diverted."

Also, the prestige and community linkages of colleges and universities is felt to be beneficial in recruiting stakeholders. Said one respondent, "community colleges are community-based connecting bridges to the private sector." Finally, since community colleges sometimes are seen as "the last ones to get on board," assigning fiscal agency to a postsecondary institution is viewed as a strategic way to obtain commitment from them to build a STW system.

Conversely, some respondents view postsecondary institutions as entrenched bureaucracies which lack the desire to change business as usual. The following comments illustrate this sentiment.

- "They are a bureaucracy that can't be moved."
- "Community colleges live in their own world. They don't like to be held accountable. They like lots of 'wiggle room'."
- "STW is seen as just another of the community college initiatives. There is a perception on the part of local educational administrations of: 'What are they making me do now?'"

Training institutions, business and labor organizations, and other organizations: Regional entities (e.g., counties, area development districts) are seen as beneficial to the extent that they have geographic and size advantages, the ability to serve a coordinating function in areas with multiple school districts and buffer potential problems between schools, and the inherent capacity to help to "preserve unique characteristics of distinct geographical regions." They also may be better able to handle workload and manage cash flow than small districts.

However, not all regional governmental units have the capacity or resources to take on the duties of fiscal agency. Moreover, conflicting boundaries within a region (e.g., technical college districts versus labor market areas) can be problematic.

As for organizations such as workforce development boards, 501(c)(3) corporations, chambers of commerce, and PICs, their only cited disadvantage is a lack of knowledge regarding how schools operate. In contrast, they generally are perceived as having a number of advantages including being more attuned to business needs and wants and having a greater capacity for involving businesses, attracting private funding, and finding mentors and work experience sites. They also are viewed as having the potential to streamline their structures and avoid the problems of an educational bureaucracy. PICS, specifically,

also are seen as having greater familiarity with Department of Labor programs/requirements.

Particularly in relation to creating a "new" institution [e.g. 501(c)(3)s] to administer STW funds, advantages are perceived in terms of an organization able to maintain a neutral stance between competing business and education agendas. However, these entities are seen as having problems inherent in starting any new venture (e.g., hiring personnel, locating office space, start-up funding).

Discussion

Each state studied has a unique system of fiscal agency, undoubtedly influenced by factors such as state and local governance, federal funding source (i.e., Labor versus Education) and state legal requirements or restrictions. Overall, state administrative duties reside in either state education or labor departments or governors' offices. Most state fiscal agents directly fund local STW partnerships and regional technical assistance or coordinating bodies, although a few states fund programmatic or functional strands.

The question that prompted this study—whether there is an overall "best type" of fiscal agent to administer STW systems—has been answered: No. However, the question itself may be premature or even fallacious. Perhaps a more important question has to do with how a partnership should select a fiscal agent.

Findings reveal that while some fiscal agents might have been selected strategically for their leadership abilities or fiscal management history, most appear to have been selected for other reasons (e.g., no one else would do it). The study also suggests that an effective fiscal agent is more than a cash manager—they also are cast in a leadership role with the corresponding authority and responsibility for implementing a STW system. As such, they have the potential to "set the stage" for systems-building efforts. Therefore, it is important to consider the ability of the entity controlling STW finances to influence the direction taken by a partnership at any level of systems-building.

Although not a focus of this study, it is worth commenting on the already apparent turnover among fiscal agents—at both state and local levels. One can hypothesize that the "advantages" of serving in this capacity may be outweighed by factors such as cash flow or workload constraints, particularly in the cases of small or new organizations. Or, that charged with the responsibility and authority of the grant (e.g., assuming liability for all partners)—barring a significant, meaningful leadership role—the administrative duties of cash management are simply not worth the effort.

The challenge facing a partnership is to choose a fiscal agent who is reflective of the partnership itself. Bias towards any particular organization is detrimental. A fiscal agent who is able to balance regional, educational, and business concerns without the perception that it is tied to any one stakeholder is optimal. Said one respondent, "By the second or third year, [there should be] a more equitable fiscal agent partnership, so that the perception of dominance will fade. Fiscal agents should manage expectations through an independent intermediary." This individual recommended a 501(c)(3) structure. Given that STW systems are eventually to be self-sustaining, this is a fiscal agent structure worth examining further.

Arizona's
SCHOOLTOWORK SYSTEM

For additional information about Arizona's School To Work initiative, contact:

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